

FINAL BILL REPORT

SB 5196

C 337 L 05

Synopsis as Enacted

Brief Description: Regulating insurable interests and employer-owned life insurance.

Sponsors: Senators Fairley, Benton, Keiser, Benson, Franklin and Berkey; by request of Insurance Commissioner.

Senate Committee on Financial Institutions, Housing & Consumer Protection
House Committee on Financial Institutions & Insurance

Background: Generally, the ability to obtain insurance on another person depends upon whether there is an "insurable interest" in that person. An insurable interest is based on the relationship that supports the issuance of an insurance policy, and requires that the continued life of the insured be of real financial or familial interest to the insuring party.

Businesses can obtain employer or "corporate-owned" life and disability insurance on their employees. The purpose of this coverage has traditionally been to provide funds to maintain the business in the event of the loss of a "key person," such as an owner, partner or executive. Employees who are more easily replaceable in the job market are not usually insured in this manner.

Concern exists that some corporate employers may be able to obtain insurance on any of their employees, including those who are not "key" workers, without the employee's knowledge. This has the effect of functioning as a de facto nontaxable investment by the corporation, for its own benefit, rather than as true insurance.

Summary: Except for ocean marine and foreign trade insurance, insurance transactions in Washington State may not insure against the death or disability of another person unless the person contracting for the insurance has an insurable interest in the person being insured. In the case of corporate-owned life or disability insurance policies purchased by an employer on an employee, no policy may take effect unless, at the time the insurance contract is made, the individual insured consents to the contract in writing. An employer may not retaliate against an employee who does not want to be insured. For corporate-owned life insurance, an employer must provide the employee with written notice of the identity of the insurance carrier, the maximum face amount of the policy, and the identity of the beneficiary.

The provisions of the law apply prospectively to policies issued and delivered after the effective date of the act. Legislative intent is stated, and the Office of the Insurance Commissioner is required to do rulemaking and report to the Legislature.

Votes on Final Passage:

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| Senate | 46 | 0 | |
| House | 95 | 1 | (House amended) |
| Senate | 37 | 0 | (Senate concurred) |

Effective: July 24, 2005